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SUBJECT: Treasury A/S Cohen Urges Major Afghan Banks to be more  
Vigilant

REF: A. KABUL 551  
[1](#)B. KABUL 455

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SUMMARY  
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[1](#)1. (SBU//NF) In meetings with the heads of Kabul Bank, Azizi Bank and Afghan United Bank on February 11, Treasury Department Assistant Secretary for Terrorist Financing David Cohen expressed optimism that the Afghan banking sector is implementing stronger controls against anti-money laundering and terrorist financing, but urged the banks to be more vigilant, especially if they want to pursue linkages with U.S. and other international institutions. A/S Cohen expressed particular concern about Kabul Bank's correspondent relationship with banks in Iran, as well as Afghan United Bank's association with the New Ansari Financial Network, an organization under investigation by Afghan law enforcement for its alleged involvement with illicit finance cash flows and narcotics traffickers. A/S Cohen also met with the Minister of Economy Haji Abdul Hadi Arghandewal to emphasize the need to strengthen the Ministry's oversight of NGOs and charities operating in Afghanistan. A/S Cohen delivered a strong message to both the banks and Ministry of Economy on the need to dramatically enhance efforts to combat illicit financing in Afghanistan. End Summary.

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KABUL BANK, AFGHANISTAN'S LARGEST BANK  
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[1](#)2. (SBU//NF) Treasury Assistant Secretary for Terrorist Financing David Cohen travelled to Afghanistan as part of the delegation led by Treasury Deputy Secretary Neal Wolin. On February 11, A/S Cohen met with several Afghan banking leaders, beginning with Kabul Bank President Khalil Frozi, Director of Internal Audit Raja Gopalakishnan, Compliance Director Mahboob Frotan and Head of International Banking, Samir Cena. With the most extensive branch network and over \$1.05 billion in deposits, Kabul Bank is the largest bank in Afghanistan. Frozi reported that the bank has approximately one million customers and provides services for approximately 350,000 civil servants in the form of electronic salary transfers/payments. Bank officials added that its primary international customers are foreign NGOs, the U.S. Embassy, the U.S. Army and ISAF.

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KABUL BANK AML/CFT COMPLIANCE  
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[1](#)3. (SBU//NF) President Frozi maintained that his bank's compliance practices are strong and that it regularly submits reports of suspicious and large cash transactions (exceeding Afs 500,000 - equivalent to USD 10,000) to FinTRACA, Afghanistan's financial

intelligence unit. Additionally, he asserted that the bank profiles its larger account holders every six months to ensure there are no unusual transactions. Noting that Kabul Bank understands the importance of combating terrorist financing, Frozi requested that Treasury provide the bank with more specific details/identifiers associated with "blacklisted" individuals, particularly from the UN list.

¶4. (SBU//NF) In response to Frozi's comment that his bank is working to develop its capacity to match international standards and gain access to U.S. markets, A/S Cohen expressed support for this approach, reminding the bank officials that the risk of money laundering and terrorist financing in Afghanistan is significant. He commended Kabul Bank for establishing stronger controls, but urged the bank to be extraordinarily vigilant against money laundering and terrorist financing concerns.

¶5. (SBU//NF) Kabul Bank indicated it is preparing to introduce plastic "stored value" cards to transfer cash/value to diminish the role of money exchangers and service providers in Afghanistan. (Note: While Kabul Bank aims to diminish the role of money service providers, it maintains bank accounts for many of these providers. End Note.)

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KABUL BANK'S TIES TO IRAN  
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¶6. (SBU//NF) A/S Cohen expressed concern that Kabul Bank has correspondent relationships with Post Bank of Iran (Ref A). (Note: In an earlier meeting with Kabul Bank, its leadership indicated a desire to conduct business with Post Bank of Iran and asked for U.S.

KABUL 00000668 002 OF 003

Treasury's position. End Note.) A/S Cohen stated that no U.S. financial institution will form a correspondent relationship with Kabul Bank if it facilitates transactions for or on behalf of Iran. Kabul Bank explained that Iran is one of Afghanistan's largest trading partners, with some \$3 billion per annum worth of trade between the two countries. Frozi responded that Kabul Bank will immediately cease its dealings with all Iranian institutions and close any existing accounts, adding that his bank would provide Treasury with a record of all transactions from the Iranian accounts. (Note: The Treasury Attache office will follow up on Kabul Bank's offer. End Note)

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AZIZI BANK, A DISTANT SECOND  
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¶7. (SBU//NF) Following his meeting with Kabul Bank, A/S Cohen met with Azizi Bank President Noor Khan Haider, Deputy CEO Inayatullah Fazli, and Branch Operations Manager Frogh Lateef. Haider said Azizi Bank has 230,000 accounts, and is Afghanistan's second largest bank after Kabul Bank. (Note: Azizi Bank is the second largest in terms of account holders, but third in terms of deposits; Afghan International Bank is second in total deposits. End Note.) Haider asserted that Azizi Bank is fully compliant with Afghan Central Bank rules and regulations regarding illicit finance and regularly reports large cash transactions to FinTRACA.

¶8. (SBU//NF) A/S Cohen asked about Small and Medium Enterprise (SME) lending and Azizi Bank's issuance of stored value cards. Haider responded that, per a request from the Minister of Agriculture, "Azizi is in the process of looking into SME lending, that it is very risky," but that the Minister had agreed to share some of the risk. (Note: We are not aware of an agreement between the Ministry of Agriculture, Irrigation, and Livestock (MAIL) and Azizi Bank for SME lending - particularly with an agreement to share risk. A broader agriculture finance plan of action is under discussion between Embassy Kabul and Washington. End Note.)

¶9. (SBU//NF) A/S Cohen encouraged Azizi Bank officials to be cautious and to increase their awareness regarding terrorist financing and other illicit financing schemes. (Note: As with Kabul Bank, Azizi Bank is pursuing correspondent relationships with

U.S. Banks (specifically Citibank) but were (according to Azizi Bank) told by Citi that Government of Afghanistan standards are unsatisfactory. Azizi Bank maintains correspondent relationships with Commerzbank (Germany) and Habib American Bank (U.S.). End Note.)

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OVERVIEW OF AFGHAN UNITED BANK  
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¶10. (SBU//NF) A/S Cohen then met with Afghan United Bank (AUB) Chairman Mohammad Jan, CEO Mohammad Hassan and Deputy CEO Haji Bashir Ahmad. AUB reported that it is in the process of purchasing and customizing new Oracle software to ensure compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) controls. A/S Cohen urged AUB to not rely strictly on software, but to fully understand its customers. (Note: All three banks indicated they have acquired or are in the process of acquiring AML/CFT software. End Note.)

¶11. (SBU//NF) AUB noted that 90% of its accounts are business accounts and it has very few individual account holders. As with the other banks, A/S Cohen stressed that in order for AUB to have correspondent relationships with U.S. and other international financial institutions, it needs to have strong AML/CFT controls in place. Hassan reported that AUB has correspondent accounts with Habib American Bank, whose representative comes to Afghanistan every year for a review. Furthermore, he said the auditing firm KPMG drafted and reviewed AUB's compliance policy. (Note: The Treasury Attache office is arranging meetings with local audit firms such as KPMG, PricewaterhouseCoopers, Ernst and Young, and Deloitte to better understand their relationships with their parent companies and other area audit firms. End Note.)

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AFGHAN UNITED BANK'S LINK TO THE NEW ANSARI NETWORK  
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¶12. (SBU//NF) A/S Cohen expressed concern that AUB is part of the New Ansari Financial Network, asking how AUB is protecting itself against illicit financial flows associated with New Ansari. CEO Mohammad Hassan responded that "AUB is not involved with the hawala network nor influenced in any way by New Ansari." However, when A/S

KABUL 00000668 003 OF 003

Cohen asked whether New Ansari had accounts with AUB, Hassan replied affirmatively, stating that New Ansari and other licensed money service providers have deposit accounts with AUB, but that international money transfers are prohibited via AUB. AUB Chairman Mohammad Jan explained that only eight years ago, all financial transfers in Afghanistan were done through hawalas, but Afghans had begun to use banks, adding that the Central Bank should "tax hawala transfers" to encourage people to move money into banks. A/S Cohen noted that Treasury would like to encourage the banking sector to expand and to assist in the broader efforts to bring hawalas in line with more formal financial practices. Stressing that hawalas are higher risk bank customers, he said more enhanced procedures are needed, including ongoing monitoring of hawala accounts. A/S Cohen encouraged AUB officials to work closely with law enforcement and the Central Bank to make sure they are in compliance with international law and best practices. Hassan reiterated that AUB is cooperating and will continue to do so.

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STRENGTHENING MINISTRY OF ECONOMY'S NGO OVERSIGHT  
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¶12. (SBU//NF) A/S Cohen also met with Minister of Economy Abdul Hadi Arghandawal to follow up on concerns regarding the Ministry of Economy's (MOE) role in monitoring the Afghan NGO sector, as charities are required to register with the MOE, which also has responsibility for supervising the sector.

¶13. (SBU//NF) A/S Cohen emphasized that NGO oversight remains a serious vulnerability in Afghanistan, as many NGOs serve as storage/transfer mechanisms for insurgent finance worldwide.

Arghandewal responded that there are 1,625 registered NGOs in Afghanistan and that there is no requirement for NGOs and charities to report suspicious activity or currency transactions to the Ministry or other oversight body. Observing that he has only been in his position for 20 days and therefore "starting from scratch," he noted that capacity throughout the MOE is very low and Ministry staff do not have the capability to monitor projects properly. A/S Cohen stressed that the Ministry of Economy should play a key role moving the Government in a direction that results in better supervision of this important sector.

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COMMENT  
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14. (SBU//NF) Assistant Secretary Cohen's visit sent a powerful message on "increased vigilance" to the Afghan financial sector, which many consider the country's most powerful business grouping. While the Central Bank's financial supervision department has made progress, serious concerns remain in the sector, in particular the level of due diligence exercised by Afghan banks transacting business with domestic and international customers, which requires further tightening at both the bank and financial regulator levels. It was also clear from these meetings that the MOE needs to strengthen NGO and charity oversight functions immediately.

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